FISCAL NOTE

HB 2547 – SB 2610

March 21, 2006

SUMMARY OF BILL: Authorizes each state-operated university in Tennessee to elect to establish a university venture development fund (UVDF) for the purpose of facilitating the commercialization of university research and development. Requires any such university to solicit contributions and establish grant programs. Authorizes any such university to provide qualified grant applicants with grant funds to transform research and development concepts into commercially viable products and services, provided grant funds are available. Requires the Department of Revenue to grant tax credits to any UVDF contributor based upon the amount of their contribution.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures - $168,000 One-Time

Other Fiscal Impact – The fiscal impact of this bill is dependent upon several unknown factors. Therefore, determining a precise fiscal impact is very problematic. Donations made to university venture development funds could accumulate to any amount up to $10,000,000 (the cap proposed in this bill), which would represent an increase to state revenues. Cumulative tax credits, dependent upon donations, could be authorized for any amount up to $2,000,000, which would represent a decrease to state revenues. Offsetting increases to state revenues could occur if any licensing and/or royalty revenue is generated from products or services created with UVDF monies. In addition, any decreases to state revenues resulting from this bill may possibly be offset by secondary economic effects. These residual effects may ultimately increase sales and use tax revenues or franchise and excise tax revenues. However, any such residual effects are not sufficiently measurable to be included in the quantifiable fiscal impact of this bill.

Assumptions:

- The fiscal impact of this bill is dependent upon several unknown factors including (1) which and how many universities will establish such funds, (2) how many existing franchise and excise taxpayers would contribute to the fund, (3) the taxpayer's potential tax liability relative to their contributions to the fund, and (4) how much residual income would be generated by the commercialized R&D products.
- The total amount contributed to all university development funds cannot exceed $10,000,000.

- Enactment of this bill authorizes tax credits up to a maximum of $4,000,000 on contributions made to any one university.
- The total credit allowed for any taxpayer in a single year cannot exceed 60% of the taxpayer's F&E tax liability for that tax year. The credit for a single year cannot exceed $50,000 or the taxpayer's liability for the tax year, whichever is less. Otherwise, the credit cannot exceed more than 20% of the amount the taxpayer actually contributed to the venture capital fund.
- Given the above tax credit restrictions, the cumulative amount of tax credits would never exceed $2,000,000.
- The Department of Revenue estimates a one-time cost of $168,000 for software modifications.
- 20% of any licensing and royalty revenue, generated from any commercially-viable product or service derived from UVDF grant monies, would be transferred to the general fund until the amount transferred equals the amount of tax credits allowed.
- Economic activity generated directly or indirectly by the fund will help to raise tax revenues through the sales & use and franchise & excise taxes.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

James W. White, Executive Director